

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT

OF THE

NEWARK LEGACY CHARTER SCHOOL

JUNE 30, 2013**

**PREPARED BY

NEWARK LEGACY CHARTER SCHOOL**

**NEWARK LEGACY CHARTER SCHOOL
ESSEX COUNTY**

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INTRODUCTORY SECTION

October 21, 2013

Commissioner
New Jersey Department of Education
100 Riverview Executive Plaza
CN – 500
Trenton, New Jersey 08625-0500

Dear Commissioner:

We hereby submit the Comprehensive Annual Financial Report of the Newark Legacy Charter School (the “Charter School”) for the fiscal period ended June 30, 2013. Responsibility for both the accuracy of the data and completeness and fairness of the presentation, including all disclosures, rests with the management of the Charter School. To the best of our knowledge and belief, the data presented in this report is accurate in all material respects and is reported in a manner designed to fairly present the financial position and result of operations of the various funds and account groups of the Charter School. All disclosures necessary to enable the reader to gain an understanding of the Charter School’s financial activities have been included.

The Comprehensive Annual Financial Report is presented in four sections: introductory, financial, statistical and single audit. The introductory section includes this transmittal letter, the Charter School’s organizational chart and a list of principal officials. The financial section includes the Management’s Discussion and Analysis, the basic financial statements, required supplementary information and other supplementary information, as well as the auditor’s report thereon. The statistical section includes three unaudited fiscal years of data. The Charter School is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act of 1996 and the U.S. Office of Management and Budget Circular A-133, “*Audits of States, Local Governments and Non-Profit Organizations*”, and the New Jersey OMB Circular Letter 04-04, “*Single Audit Policy for Recipients of Federal Grants, State Grants, and State Aid*”. Information related to this single audit, including the auditor’s report on internal control and compliance with applicable laws and regulations and findings and recommendations are included in the single audit section of this report.

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Commissioner**

1) REPORTING ENTITY AND ITS SERVICES

The Newark Legacy Charter School (“NLCS”) is an independent reporting entity within the criteria adopted by the Government Accounting Standards Board (“GASB”) as established by GASB Statement No. 14. All funds and account groups of the Charter School are included in this report.

NLCS received its approved charter in July 2010. The school was founded by Paula White Bradley along with a group of committed community members. Kenneth Schultz became Executive Director July 1, 2012 replacing Paula White Bradley.

With the opening of its first year in August 2010, NLCS’s initial enrollment was 120 students, with 60 scholars in the full day Kindergarten and 60 scholars in Grade 1. This includes general education and special needs student enrollment. NLCS accepts special education and disabled children if appropriate application is made to the Charter School as required by law. The following details the changes in student enrollment of the school over the last three years:

Grade	2010-2011	2011-2012	2012-2013	Change
Kindergarten	58	58	60	3%
1st	58	55	60	8%
2nd	N/A	55	60	8%
3rd	N/A	N/A	60	100%

In 2012-2013, to accommodate its growth, NLCS leased additional space from Newark Public Schools (“NPS”). Specifically, NLCS leased space at NPS’s Madison School located at 823 S.16th Street, in addition to the space leased at 460 Lyons Avenue.

2) ECONOMIC CONDITION AND OUTLOOK

The city of Newark’s proximity to New York City and easy access via major highways are attractive features that made it a choice for many companies that conduct business in the metropolitan New York area. In addition, the city's close proximity to the Port of New York/New Jersey and Newark International airport make it a desirable business location and transportation hub.

The City is the largest city in the state. It serves as the county seat for Essex County, State and Federal Courts as well as State’s public utility and governmental offices attracting a large number of law firms and small businesses to the central business district. The City of Newark is the financial capital of the state, harboring financial institutions like Prudential Insurance Company, Horizon Blue Cross Blue Shield of New Jersey as well the State’s largest public utility, Public Service Electric and Gas Company (PSEG).

2) ECONOMIC CONDITION AND OUTLOOK

The City has experienced a surge of large scale economy in the recent years by way of development projects initiated by the Private Sector in partnership with the City including a professional ice hockey team, “New Jersey Devils” and the Panasonic Corporation located its U.S. Headquarter in Downtown Newark in 2013. However, poverty remains a consistent problem in Newark, despite its revitalization in recent years.

Major initiatives:

The mission of Newark Legacy Charter School is to develop in kindergarten through eighth grade students the scholarship, discipline and character necessary for them to gain entry to, succeed in, and graduate from demanding, college preparatory high schools. In a knowledge-based economy, scholars must be prepared to meet the challenges of a college curriculum. The curriculum of the Lower School is designed to provide scholars with the most solid foundation possible to propel them forward in their later years. The New Jersey Core Curriculum Content Standards and the Common Core State Standards delineate discrete standards to be taught to the state’s public school students. As a public charter school, Newark Legacy Charter School uses various resources to suit the mandates of the state and nation, and to meet established goals. Our commitment is to teaching the common core standards, and not to a particular textbook or curricular program.

Though reading comprehension is developed daily through guided reading lessons, the School’s literacy program has a heavy focus on phonics and word study throughout the lower school grades. Scholars become intimately familiar with the structure of the English language, such that they are able to decode unfamiliar words successfully. Word study lessons are designed to help students predict word meanings based on knowledge of a word’s parts. Scholars also participate in the school’s unique Oral Literacy Enrichment Program (OLEP), where they express themselves orally for varied purposes.

At least one hour of daily math instruction is provided, focusing on conceptual understanding in mathematics as well as mastery of mathematics procedures. We use the Singapore Math approach. A carefully-sequenced, standards-based instructional program is provided in social studies and science. The goal of the social studies curriculum is to provide scholars with a framework from which to become positive change agents in the world. We begin this process by helping the children to understand and appreciate their own heritage and background, and then we teach them about the various geographies, cultures, economies and heritages around them. Several field trips with social studies connections are planned yearly for each grade level. Science instruction at our school educates students about physical, earth and life sciences so that they can understand

Major initiatives:

natural phenomena. To maximize instructional time for literacy, kindergarten, first, second and third grade students receive a minimum of 90 minutes of science instruction and 90 minutes of social studies instruction each week. The time increases as the students proceed to the next grade.

There are three overarching academic goals established in our school's charter, for which we are held legally accountable by the New Jersey Department of Education.

These goals are:

Newark Legacy Charter School's academic goals are as follows:

Academic Goal I: Given our results set forth above, we expect to see an average increase of 5% in both subjects for NJASK in 2013-2014 and 2014-2015. We also expect that each class will be ahead of grade level by a minimum of 2 months on the Terra Nova (e.g., grade equivalent of 2.2 at the end of first grade).

Rationale: The rationale for the expected NJASK growth is based on the fact that the majority of our 3rd grade cohort would have benefitted from our kindergarten program, unlike last year's 3rd grade cohort that started with us in first grade (or in higher grades). Additionally we have seen positive growth in our internal assessments and Terra Nova. With respect to Terra Nova, our students met that goal in literacy and math in 2012-2013.

Academic Goal II: A minimum of a 5% increase in the number of students scoring in the advanced category on the NJASK for every grade level that the tests are administered to Newark Legacy Charter School students over the next 3 years.

Rationale: While we only have 1 year of NJASK results, we believe that we will see significant growth in the advanced proficiency category for our scholars. As mentioned above, not a single student in our NJASK first cohort started with Newark Legacy in kindergarten. As such, if students attend Newark Legacy Charter School for at least three years, the quality of the educational program should result in advanced outcomes for a portion of these students.

Cultural Goal III: Newark Legacy exceeds the sector response in 80% of the categories on the Insight Survey, created by The New Teacher Project ("Insight Survey"). The "sector" response includes other Newark Charters participating in the survey.

Rationale: Newark Legacy uses internal and external surveys to measure the effectiveness of its program through the lenses of its staff members. Indeed, we embrace feedback on all aspects so we can go from good to great. One external survey that we use is the Insight Survey by The New Teacher Project. This survey contains the following

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categories: (i) Learning Environment; (ii) Observation and Feedback; (iii) Student Growth Measures; (iv) Professional Development; (v) Instructional Planning; (vi) Evaluation; (vii) Peer Culture; (viii) Workload; and (ix) Career Progression. Each category has a subset of categories that provide excellent feedback. Last year, we exceeded the Sector Response in 5 categories, tied the sector in one category, was .1 below in 2 categories, and .4 below in one other category.

Progresses towards these goals have been evidenced based on student mastery of internal assessments, and external literacy, mathematics and science benchmark assessments. We also measure progress from our internal and external surveys, allowing staff to weigh in on our overall culture.

A few of the School's financial and operational goals are:

1. The School will maintain organizational strength by demonstrating fiduciary and financial responsibility.
2. The School will be fully enrolled and show high levels of daily attendance and student retention.
3. Newark Legacy's stakeholders will be satisfied with the school's performance.
4. The School's Oral Literacy Enrichment Program (OLEP) will be the public hallmark of the school.

Progress towards these goals have been steadily evidenced over the course of the 2012-2013 academic year, through ever-increasing adherence to all state and federal guidelines governing the school's finances. In addition, the school was at 100% enrollment at the beginning of the school year and at the end of the school year. That was due to a firm commitment to backfilling open spots. More details regarding the satisfaction of the school's stakeholders with the school's performance can be found below in the Parent Satisfaction section. Midway through the school year, and again at year's end, the School delivered an oral literacy performance to an audience of parents, friends and other community members.

Parent Satisfaction

The 2012-2013 Parent Satisfaction Survey was distributed in early June to assess parent satisfaction with the school's educational program. The survey solicited the opinions of parents/guardians regarding their views on the quality of instruction, the value that the school adds to the community and the responsiveness of the school's teachers and leaders. Overall, 90% of parents were satisfied with the academic program. Parents then specifically identified the rigor and individual attention to students to support their overall satisfaction. In terms of areas of growth, parents identified technology and facility issues, as we are co-located between two buildings.

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NLCS plans to conduct another parent satisfaction survey in 2013 – 2014, during the last month of the academic year. Additionally, the school is in ongoing dialogue with The NLCS Parent Circle – a parent-initiated and parent-run advocacy group that meets bi-monthly. The Executive Director and Chief Academic Officer are invited to attend these meetings, and the School follows up with the parent's concerns that are raised during these meetings.

Parent involvement at the School	
# Parents currently on Board of Trustees over total Board members	At the end of 2012-2013, the board recommended a parent to join the board. She will start serving her term in 2013-2014.
Major activities/events offered to parents during 11-12 school year (list in bullets). Please, include # hours or frequency of the activity and % participation.	<ul style="list-style-type: none"> • Parent Education Forum, Twice yearly, 40% participation • Parent Advocacy Forum, Once, 25% participation • Parent-Teacher Conferences, Twice yearly, 80% • Field Day, Once—parents volunteered • School Trips to chaperone, 90% of parents asked, participated
Major activities/events conducted by the parents to further the school's mission and goals, such as fundraising, volunteering, etc. (list them in, bullets). Please include # hours or frequency, and % participation.	<ul style="list-style-type: none"> • Cookie dough fundraiser (for technology purchases), Twice yearly, 90% participation • Book fair volunteering, Twice yearly, 5% participation • Fall Festival planning and execution, Once, 30% participation

3) **INTERNAL ACCOUNTING CONTROLS**

Management of the Charter School is responsible for establishing and maintaining a system of internal control designed to ensure the assets of the Charter School are protected from loss, theft or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles (GAAP). The system of internal control is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

As a recipient of federal and state financial assistance, the Charter School is responsible for ensuring that adequate internal controls are in place to comply with applicable laws

and regulations related to those programs. Internal control is also subject to periodic evaluation by the Charter School's Board of Trustees.

3) INTERNAL ACCOUNTING CONTROLS

As part of the Charter School's single audit described earlier, tests are made to determine the adequacy of internal controls, including that portion related to federal and state financial assistance programs, as well as to determine that the Charter School has complied with applicable laws and regulations.

4) BUDGETARY CONTROLS

In addition to internal accounting controls, the Charter School maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the voters of the municipality. Annual appropriated budgets are adopted for the General Fund and Special Revenue Fund. The final budget amount as amended for the fiscal year is reflected in the financial section.

5) ACCOUNTING SYSTEM AND REPORT

The Charter School's accounting records reflect generally accepted accounting principles (GAAP), as promulgated by the Governmental Accounting Standards Board (GASB). The accounting system of the Charter School is organized on the basis of funds and account groups. These funds and account groups are explained in "Notes to the Financial Statements", Note 1.

We are currently using CDK fund accounting application for the school's fiscal operations to deliver and establish a complete program including encumbrances, general ledger, accounts payable, accounts receivable, budgetary accounts and Board Secretary's monthly report. This system is a core component of our internal control system and has helped with the accountability of our financial structure.

6) FINANCIAL STATEMENT INFORMATION AT FISCAL YEAR-END

As demonstrated by the various statements and schedules included in the financial section of this report, the Charter School continues to meet its responsibility for sound financial management. The following schedule presents a summary of the general fund, and special revenue funds for the fiscal years ended June 30, 2013 and 2012

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6) FINANCIAL STATEMENT INFORMATION AT FISCAL YEAR-END

	<u>2013</u>	<u>2012</u>	<u>Increase (Decrease)</u>	<u>% change</u>
<u>Revenue</u>				
Local Sources	\$ 459,174	\$ 367,642	\$ 91,532	24.90%
State Sources	2,987,810	2,175,638	812,172	37.33%
Federal Sources	241,999	220,160	21,839	9.92%
Total	<u>\$ 3,688,983</u>	<u>\$ 2,763,440</u>	<u>\$ 925,543</u>	

The amount of monies received from local sources is determined by the per pupil cost of the Newark Public School District. We received 90% of this cost in accordance with current statute. NLCS received monies from federal and state sources attributable to grants and aids for instruction and administrative expenses for fiscal year ended June 30, 2013. The federal funds consisted of “No Child Left Behind” (NCLB), including Title I, II, IV, V, as well as IDEA Part B for students identified with special needs.

The following schedule presents a summary of general fund and special revenue expenditures for the fiscal years ended June 30, 2013 and 2012.

	<u>2013</u>	<u>2012</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
<u>Expenditures</u>				
Instruction	\$ 1,705,685	\$ 1,377,481	\$ 328,204	24%
Undistributed	-	-	-	-
Expenditures	1,641,911	1,290,498	351,413	27%
Capital Outlay	15,895	-	15,895	100%
Total	<u>\$ 3,363,491</u>	<u>\$ 2,667,979</u>	<u>\$ 695,512</u>	

The increase in cost in 2013 over 2012 was primarily due to the addition of a new grade and all the requisite costs associated with it to accommodate the increased enrollment. For the year ending June 30, 2013, the significant portion of our expenditures were based upon 1 Executive Director, 1 Chief Academic Officer, 1 SBA, 1 Dean, 1 Director of Special Project, 21 teachers, 4 instructional aides, 2 office managers, two part time nurses, and one full-time custodian. We contracted for accounting services, recess and game time (i.e., Playworks) and for related services as required for students determined to have special needs. We also contracted with Youth Development Clinic for the evaluation of special services for those who required it.

7) CASH MANAGEMENT

The investment policy of the Charter School is guided in large part by state statute as detailed in “Notes to the Financial Statements”, Note 2. The Charter School has adopted a cash management plan which requires it to deposit public funds in public depositories protected from loss under the provision of the Governmental Unit Deposit Protection Act (“GUDPA”). GUDPA was enacted in 1970 to protect governmental units from loss of funds on deposit with a failed banking institution in New Jersey.

The law requires governmental units to deposit public funds in public depositories located in New Jersey, where the funds are secured in accordance with the Act. Our funds are presently deposited in PNC Bank N.J, in compliance with the state and federal regulations.

8) RISK MANAGEMENT

The Board carries various forms of insurance, including, but not limited, to general liability, automobile liability, hazard and theft insurance on property and contents, fidelity bonds, worker’s compensation and student insurance.

9) OTHER INFORMATION

Independent Audit

State statute requires an annual audit by independent certified public accountants or registered municipal accountants. The accounting firm of Ilori CPA LLC was appointed by the Charter School’s Board of Trustees. In addition to meeting the requirements set forth in state statutes, the audit also was designed to meet the requirements of the Single Audit Act Amendment of 1996 and the related OMB Circular A-133 and New Jersey OMB Circular Letter 04-04. The auditor’s report on the general-purpose financial statements, combining and individual fund statements, and schedules are included in the financial section of this report. The auditor’s reports related specifically to the single audit are included in the single audit section of this report.

10) ACKNOWLEDGEMENTS

We would like to express our appreciation to the members of the Newark Legacy Charter School Board of Trustees for their concern in providing fiscal accountability to the citizens and taxpayers of the Charter School and Newark Public School district and thereby contributing their full support to the development and maintenance of our financial operations.

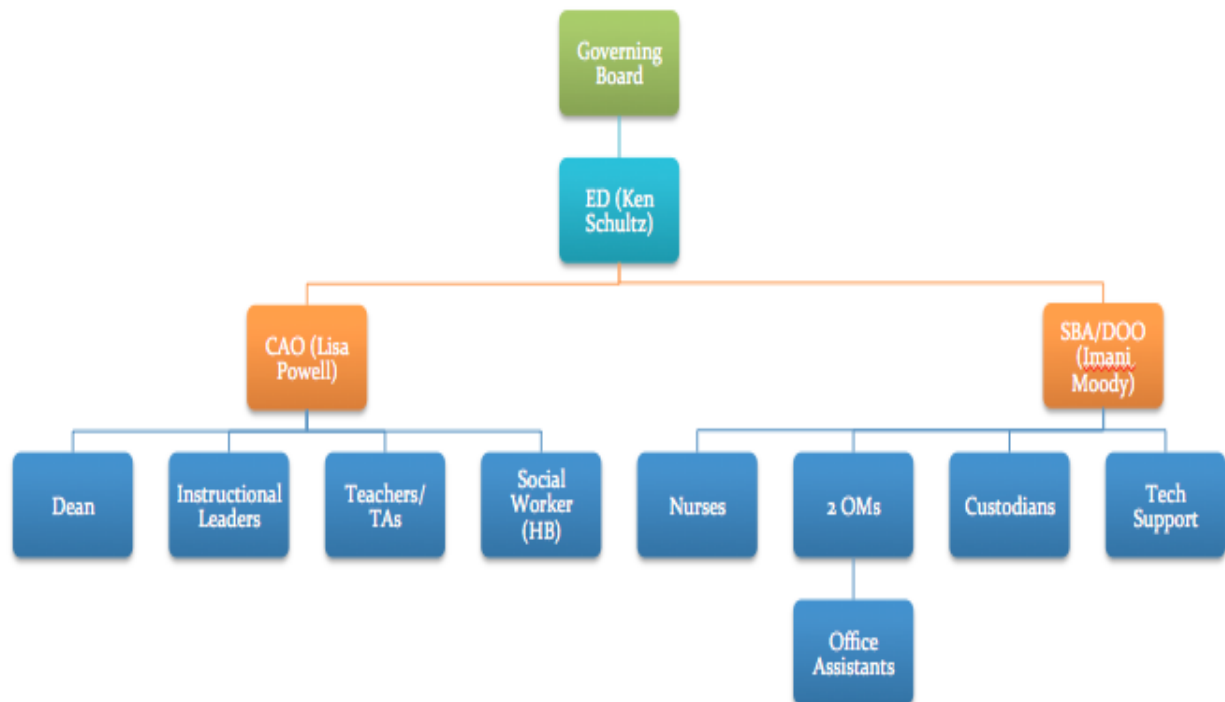
Respectfully submitted,

Executive Director,
Newark Legacy Charter

School Business Administrator/Board Secretary



NLCS ORGANIZATIONAL CHART



NEWARK LEGACY CHARTER SCHOOL

ROSTER OF OFFICIALS JUNE 30, 2013

Members of Board of Trustees

Kyle Rosenkrans	President
Everett M. Johnson	Vice President
Krystal R. Canady	Member
Tanya Mitchell	Member
David Gibbons	Member
Mirtha Sabio	Member
Frank Martinez	Member

Other Officials

Kenneth Schultz	Executive Director
Imani Moody	School Business Administrator/Board Secretary
Darice Gonzalez, CPA	Incoming SBA/Board Secretary from June 27, 2013
Lisa Powell	Chief Academic Officer

NEWARK LEGACY CHARTER SCHOOL
CONSULTANTS AND ADVISORS

Attorney

Porzio, Bromberg and Newman LLC
100 South Gate Parkway
Morristown, NJ 07962

Audit Firm

Ilori CPA LLC
744 Broad Street Suite 1005
Newark, NJ 07102

Official Depository

PNC Bank
Newark, NJ 07631

FINANCIAL SECTION



**ILORI CPA LLC
CERTIFIED PUBLIC ACCOUNTANTS
& MANAGEMENT CONSULTANTS
Member of AICPA, NJCPA & MACPA**

**24 COMMERCE STREET SUITE 1427
NEWARK, NEW JERSEY 07102
Telephone (973)-621-5780
Fax (973) 404- 8858**

INDEPENDENT AUDITOR'S REPORT

The Honorable President and
Members of the Board of Trustees
Newark Legacy Charter School
Essex County, New Jersey

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of Newark Legacy Charter School, Inc., (the "Charter School") in the County of Essex, State of New Jersey, as of and for the fiscal year ended June 30, 2013, which collectively comprise the charter school's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Charter School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and audit requirements as prescribed by the Division of Finance, Department of Education, State of New Jersey. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the school's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Charter School, as of June 30, 2013, and the respective changes in financial positions and cash flows, where applicable for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 17 and 65 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Charter School's basic financial statements. The introductory section, combining and individual fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2013, on our consideration of the Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Charter School's internal control over financial reporting and compliance.

Ilori CPA LLC

Kunle B. Ilori, CPA
Licensed Public School Accountant
No. 20CS00233100

October 21, 2013
Newark, New Jersey

**REQUIRED SUPPLEMENTARY INFORMATION
PART I**

MANGEMENT DISCUSSION AND ANALYSIS

The Management Discussion and Analysis (MD&A) provides an analysis of the Charter School's overall financial position and results of operations.

NEWARK LEGACY CHARTER SCHOOL

MANAGEMENT’S DISCUSSION AND ANALYSIS

JUNE 30, 2013

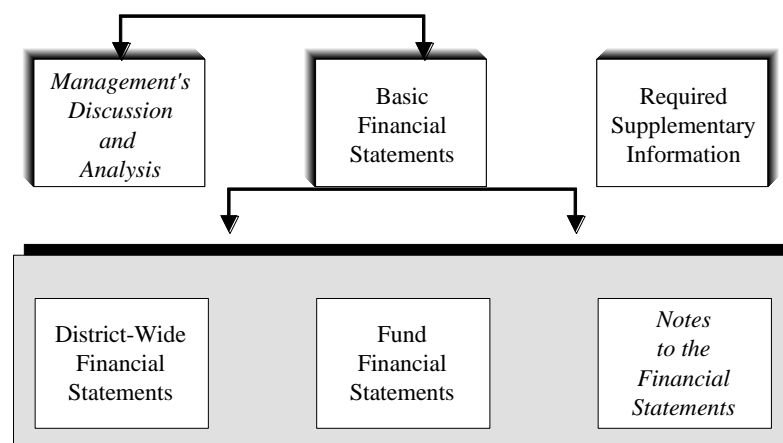
The discussion and analysis of Newark Legacy Charter School’s financial performance provide an overview of the School’s financial activities for the fiscal year ended June 30, 2013. The objective of this overview and analysis is to examine the District’s financial performance as a whole and to disclose important financial commentary that will provide overall understanding of the District’s financial position. However, readers of this document are encouraged to review the CAFR’s Letter of Transmittal in the Introductory Section, and the Basic Financial Statements and Notes to Financial Statements in the Financial Section to enhance their understanding of the Board’s financial performance.

The Management’s Discussion and Analysis (MD&A) as a required Supplementary Information Specified in the Governmental Accounting Standard Board’s (GASB) statement No 34, *Basic Financial statements and Management’s Discussion and Analysis for state and local Governments* issued in June 1999; GASB Statement No. 37, *Basic Financial Statement – and Management’s Discussion and Analysis- for State and Local Governments: Omnibus*, an amendment to GASB Statement No 21 and No 34, issued in June 2001, and; in GASB Statement No 38, *Certain Financial Statement Note Disclosures*, issued in 2001. Certain comparative information between the current year and the prior year is required to be presented in the MD & A.

Overview of the Financial Statements

This annual report consists of six parts-*management's discussion and analysis* (this section), the *basic financial statements*, *required supplementary information*, *other supplementary information*, *the statistical section*, and *the single audit section*.

Table A-1. Required Components of the School's Annual Financial Report



NEWARK LEGACY CHARTER SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013

The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are charter school *financial statements* that provide both *long-term* and *short-term* information about the District's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the District's operations in *more detail* than the district-wide statements.
 - *Governmental funds* statements tell how *basic* services such as regular and special education were financed in the *short term* as well as what remains for future spending.
 - *Proprietary funds* statements offer *short-* and *long-term* financial information about the activities the government operates *like businesses*, such as food service.
 - *Fiduciary funds* statements provide information about the financial relationships in which the District acts solely as a *trustee or agent* for the benefit of others, to whom the resources in question belong.

The financial statements also include *notes* that explain certain information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Table A-1 shows how the required parts of this annual report are arranged and related to one another.

NEWARK LEGACY CHARTER SCHOOL

MANAGEMENT’S DISCUSSION AND ANALYSIS

JUNE 30, 2013

Table A-2 Major Features of the School-Wide and Fund Financial Statements				
	School-wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire School (except fiduciary funds)	The activities of the School that are not proprietary or fiduciary, such as special education and building maintenance	Activities the School operates similar to private businesses: Food Service Fund and Extended Day Program	Instances in which the School administers resources on behalf of someone else, such as state unemployment insurance, payroll and payroll agency and student activities
Required financial statements	*Statements of Net Position *Statements of Activities	*Balance Sheet *Statement of revenues, expenditures and changes in fund balances	*Statement of Net Position *Statement of revenues, expenditures and changes in fund Net Position *Statement of cash flows	*Statement of Fiduciary Net Position *Statement of changes in fiduciary Net Position
Accounting Basis and Measurement Focus	Actual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both financial and capital, short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/ outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during year, regardless of when cash is received or paid	All additions and dedications during the year; regardless of when cash is received or paid

Table A-2 summarizes the major features of the School's financial statements, including the portion of the School’s activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements. The basic financial statements include two kinds of statements that present different views of the School:

- Charter School-wide Statements
- Fund Financial Statements

NEWARK LEGACY CHARTER SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013

Charter School-wide Statements

The School-wide statements report information about the School as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes *all* of the School's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two School-wide statements report the School's *Net Position* and how they have changed. Net Position the difference between the School's assets and liabilities is one way to measure the School's financial health or *position*.

- Over time, increases or decreases in the School's Net Position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the School, you need to consider additional non-financial factors such as changes in the School's property tax base and the condition of school buildings and other facilities.

The School-wide financial statements of the School are divided into two categories:

- *Governmental activities* - Most of the School's basic services are included here, such as regular and special education, instruction, extracurricular activities, curriculum and staff development, health services, operations and maintenance of plant and administration. Property taxes and state grants finance most of these activities.
- *Business-type activities* - The School charges fees to customers to help it cover the costs of certain services it provides. The School's Food Service Fund and Extended Day Program Fund are included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the School's most significant *funds*-not the School as a whole. Funds are accounting devices that the School uses to keep track of specific sources of funding and spending for particular programs. The School considers all governmental and proprietary funds to be major funds in accordance with requirements of the Division of Finance, Department of Education, of the State of New Jersey.

NEWARK LEGACY CHARTER SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013

Fund Financial Statements Cont'd

The School has three kinds of funds:

- *Governmental funds* - Most of the School's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.
- *Proprietary funds* - Services for which the School charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the School-wide statements, provide both long- and short-term financial information. In fact, the School's *enterprise funds* (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The School's Enterprise Fund includes the Food Service Program and the Extended Day Program.
- *Fiduciary funds* - The School is the trustee, or *fiduciary*, for assets that belong to others such as the state unemployment insurance, payroll, and student activity funds. The School is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the School's fiduciary activities are reported in a separate statement of fiduciary Net Position and a statement of changes in fiduciary Net Position. We exclude these activities from the School's School-wide financial statements because the School cannot use these assets to finance its operations.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the School-wide and fund financial statements and can be found starting on page 37 of this report. In addition to the basic financial statements and accompanying notes, this report also includes required supplementary information.

NEWARK LEGACY CHARTER SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013

FINANCIAL ANALYSIS OF THE CHARTER SCHOOL AS A WHOLE

The perspective of the Statement of Net Position is of the Charter School as a whole. Net Position may serve over time as a useful indicator of a government's financial position.

The Charter school's financial position is the product of several financial transactions including the net results of activities.

Government Activities

The Charter School's total revenues amounted to \$3,794,214 and \$2,866,269 for the years ended June 30, 2013 and 2012 which included non-budgeted state reimbursement of TPAF Social Security Contributions of \$105,231 and \$ 83,947 respectively.

The total cost of all programs and services amounted to \$3,020,417 and \$2,598,292 for the years ended June 30, 2013 and 2012.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Instruction expenses include activities directly dealing with the teaching of pupils and the interactions between teacher and student, including extracurricular activities.

Administration includes expenses associated with administrative and financial supervision of the Charter School.

Support Services include the activities involved with assisting staff with the content and process of teaching to students, including curriculum and staff development and the costs associated with operating the facility.

Capital Outlay represents school equipment purchased over the \$2,000 threshold.

NEWARK LEGACY CHARTER SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013

Business-Type Activities

Revenue for the Charter School's business-type activity "Food Service and After School" Programs for the years ended June 30, 2013 and 2012 amounted to \$183,789 and \$137,838 respectively. Newark Legacy Charter School is solely responsible for the management and fiscal accountability of the food program.

The Charter School's Funds

All governmental funds (i.e., general fund and special revenue fund presented in the fund-based statements) are accounted for using the modified accrual basis of accounting. The fund balance for the years 2013 and 2012 in the amount of \$830,737 and \$400,014 respectively is very significant as it presents the school residual interest after all financial obligations have been met. As demonstrated by the various statements and schedules included in the financial section of this report, the Charter School continues to meet its responsibility for sound financial management. The following schedules present a summary of the revenues of the governmental funds for the fiscal years ended June 30, 2013 and 2012.

	2013	2012	Increase (Decrease)	% Change
<u>Revenue</u>				
Local Sources	\$ 459,174	\$ 367,642	\$ 91,532	25%
State Sources	2,987,810	2,175,638	812,172	37%
Federal Sources	241,999	220,160	21,839	10%
Total	<u>\$ 3,688,983</u>	<u>\$ 2,763,440</u>	<u>\$ 925,543</u>	

Governmental Activities

The Statement of Activities reflects the cost of program services and the charges for services and operating grants and contributions offsetting those services. The table below, for government activities, indicates the total cost of services and the net cost of services.

NEWARK LEGACY CHARTER SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013

Governmental Activities- Continued

It identifies the cost of these services supported by unrestricted state entitlements for the fiscal years ended June 30, 2013 and 2012.

	Total Cost of Services	Grants/ Contributions	2013 Net Cost of Services	2012 Net Cost of Services	Increase (Decrease)	% Change
Instruction	\$ 1,705,685	\$ 194,820	\$ 1,510,865	\$ 1,157,321	\$ 353,544	31%
Support Services:	-	-				
Administrative expenses	951,647	-	951,647	590,416	361,231	61%
Other support services	690,264	52,243	638,021	740,348	(102,327)	-14%
Capital outlay	15,895	-	15,895	0	0	
Total Expenses	<u>\$ 3,363,491</u>	<u>\$ 247,063</u>	<u>\$ 3,116,428</u>	<u>\$ 2,488,085</u>	<u>\$ 612,448</u>	

Changes in expenditures were the results of varying factors. Current expense increased due to addition of a new grade and all the requisite costs associated with it and increased health benefit and utility costs.

General Fund Budgeting Highlights

The Charter School's budget is prepared according to New Jersey law, and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. Over the course of the year, the Charter School revised the annual operating budget several times. Revisions in the budget were made to recognize revenues that were not anticipated and to realign the budget to actual expenditures in accordance with state law.

NEWARK LEGACY CHARTER SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013

Business-Type Activity

The business-type activity of the Charter School is the food service operation and after school programs. The food program revenue comprised charges for services and federal and state reimbursements grossing \$170,090 and \$123,219 for fiscal years ended June 30, 2013 and 2012 respectively. In addition, the school also received nominal fees for its aftercare program in the amount of \$10,997 and \$12,628 for the years ended June 30, 2013 and 2012 respectively. The combined programs sustained deficit of \$10,220 and \$24,075 for the fiscal years ended 2013 and 2012 as illustrated in the accompanying Comprehensive Annual Financial Report (CAFR) Exhibits G-2.

General Fund Budgeting Highlights

The Charter School's budget is prepared according to New Jersey law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant of all the funds is the general fund as it provides resources for all other funds on a need basis.

The Charter School uses state-aid and other revenue sources. The budgeting systems are designed to tightly control total budget, but provide flexibility for Charter School management teams to modify if there is need to. During the course of fiscal 2013, the Charter School amended its general fund budget as needed.

For general fund, the final budgeted revenues and "other financing sources" were \$3,422,575 and \$2,598,292, which included a local share of \$438,160 and \$ 323,373 for the years ended June 30, 2013 and 2012. Expenditures and "other financing uses" were budgeted at \$3,105,304 and \$2,530,013 for the years ended June 30, 2013 and 2012. The State of New Jersey provided state aid in the amount of \$2,987,810 and \$2,175,638 for the fiscal years ended June 30, 2013 and 2012 respectively. In addition, in 2013 and 2012 the state provided \$105,231 and \$83,947 for the employer's share of social security contributions for Teachers Pension Annuity Fund (TPAF) members. This unbudgeted amount is included in both revenues and expenditures of the CAFR.

Capital Assets

At the end of fiscal year 2013, the Charter School had acquired an accounting application in the amount of \$15,895 classified as capital outlay in the governmental fund. No depreciation was taken in the current year as the application was not put in service in the current year. The table below shows capital assets net of depreciation for all applicable funds.

NEWARK LEGACY CHARTER SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013

Capital Assets (net of depreciation)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Charter school</u>		<u>Total</u>
	<u>2012/13</u>	<u>2011/12</u>	<u>2012/13</u>	<u>2011/12</u>	<u>2012/13</u>	<u>2011/12</u>	<u>Percentage change</u>
Building and improvement	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	0
Equipment/Computer	15,895	0	0	0	15,895	0	100%
Furniture	0	0	0	0	0	0	0
Total	<u>\$ 15,895</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,895</u>	<u>\$ -</u>	

Long-term debt and capitalized lease obligations

At June 30, 2013 and 2012, the Charter School had no long-term debt or mortgages on the school buildings as they are currently under short term lease agreements.

Economic Factors and Next Year's Budget

The State of New Jersey continues to face serious budgetary constraints. This has impacted the amount of state aid allocated to charter schools. This reality was taken into account when adopting the general fund budget for 2012- 2013. Every effort was directed to providing quality education to the community. The budget was prepared to ensure that all students have the textbooks, materials supplies, equipment and programs needed to meet New Jersey's Core Curriculum Content Standards.

EWARK LEGACY CHARTER SCHOOL

MANAGEMENT’S DISCUSSION AND ANALYSIS

JUNE 30, 2013

Contacting the Charter School’s Financial Management

This financial report is designed to provide our citizens, taxpayers and investors with a general overview of the Charter School’s finances and to reflect the Charter School’s accountability for the monies it received during the course of the fiscal year. If you have questions about this report or require additional financial information, contact the business office.

Ms. Darice Gonzalez
School Business Administrator/ Board Secretary
of record as of June 27, 2013

Newark Legacy Charter School
460 Lyons Avenue
Newark, New Jersey 07112

BASIC FINANCIAL STATEMENTS

The basic financial statements provide a financial overview of the Charter School's operation. These financial statements present the financial position and operating results of all funds and account groups as of June 30, 2013.

CHARTER SCHOOL–WIDE FINANCIAL STATEMENTS

This Statement of Net Position and the Statement of Activities display information about the Charter School as a whole. The Statement of Net Position presents the financial condition of the government and business-type activities of the Charter School at fiscal year-end. The Statement of Activities presents a comparison between direct expenses and program revenues for each program or function of the Charter School’s governmental and business-type activities.

FUND FINANCIAL STATEMENTS

PROPRIETARY FUND FINANCIAL STATEMENTS

FIDUCIARY FUND FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS

NEWARK LEGACY CHARTER SCHOOL

ESSEX COUNTY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity:

The Newark Legacy Charter School (NLCS) is an independent reporting entity within the criteria adopted by the Government Standards Board (GASB) as established by GASB Statement No. 14. All funds and account groups of the Charter School are included in this report. NLCS received its approved charter in July 2010 and has since experienced steady growth in its enrollment and financial structure. The school facility provides outstanding educational space with a host of features to promote student success.

The school is chartered for four years subject to charter renewal every four academic years. The school opened with its first year in August 2010, with initial enrollment of 120 students, with 60 scholars in the full day Kindergarten and 60 scholars in Grade 1. The school added Grade 2 in 2011-2012 with enrollment of 55 students. In 2012 -2013, the school successfully added third grade with 60 enrolled students. This includes general education and special needs student enrollment. NLCS accepts special education and disabled children if appropriate application is made to the Charter School as required by law. The Charter School is an independent reporting entity within the criteria adopted by the Government Standards Board (GASB) as established by GASB Statement No. 14. In addition, it must comply with the New Jersey Charter school program Act of 1995 and regulations promulgated thereafter.

The Charter School is an instrument of the State of New Jersey, established to function as an educational institution. The mission of Newark Legacy Charter School is to develop in kindergarten through eighth grade students the scholarship, discipline and character necessary for them to gain entry to, succeed in, and graduate from demanding, college preparatory high schools. The Charter School is committed to achieving the New Jersey Core Curriculum Content Standards and producing high academic achievement by all students. .

Component Units

The primary criterion for including activities within the Charter School's reporting entity, as set forth in Section 2100 of the GASB's Codification of Governmental Accounting and Financial Reporting Standards is the degree of oversight responsibility maintained by the Charter School management.

NEWARK LEGACY CHARTER SCHOOL

ESSEX COUNTY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

B Basis of Presentation

Oversight responsibility includes financial interdependency, selection of governing authority, designation of management, and ability to significantly influence operations and accountability for fiscal matters. The combined financial statements include all funds and account groups of the Charter School. The financial statements of The Charter School have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed for governmental units. The Governmental Accounting Standards Board (GASB) is the accounting standard-setting body responsible for establishing governmental accounting and financial reporting principles.

In June 1999, the Governmental Accounting Standards Board unanimously approved Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. In 2004, all charter schools adopted the GASB and the changes. Certain significant changes in the financial statements include the following:

- A Management’s Discussion and Analysis (MD&A) providing an analysis of the District’s overall financial position and results of operations
- Charter School-wide financial statements prepared using full-accrual accounting for all of the District’s activities and the economic resources measurement focus.
- Depreciation expense on the District’s capital assets if any is reflected in the Charter school-wide statement of activities. At June 30, 2013, no depreciation expense was recorded.
- Fund financial statements to focus on the major funds.

NEWARK LEGACY CHARTER SCHOOL

ESSEX COUNTY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

C. Basic Financial Statements:

The Charter School's basic financial statements consist of Charter School or government-wide statements, including a statement of Net Position and a statement of activities, and fund financial statements that provide a more detailed level of financial information.

School-wide Financial Statements

The statement of Net Position and the statement of activities display information about the Charter School as a whole. These statements include the financial activities of the Charter School, except for fiduciary funds. The statement of Net Position presents the financial condition of the governmental and business-type activities of the Charter School at fiscal year end.

The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Charter School's governmental and business-type activities. The governmental activities generally are financed through federal and state awards, taxes and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

D. Fund Financial Statements

Fund financial statements of the Charter School are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Charter School.

The Charter School segregates transactions related to certain Charter School functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Charter School at a more detailed level.

NEWARK LEGACY CHARTER SCHOOL

ESSEX COUNTY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

E Governmental Funds

General Fund - The General Fund is the primary operating fund of the Charter School and is always classified as a major fund. It is used to account for all financial resources except those that are legally or administratively required to be accounted for in another fund. Included are certain expenditures for vehicles and movable instructional or non-instructional equipment which are classified in the Capital Outlay sub-fund.

As required by the New Jersey Department of Education, the Charter School included budgeted capital outlay in this fund. Generally accepted accounting principles as they pertain to governmental entities state that General Fund resources may be used to directly finance capital outlays for long-lived improvements as long as the resources in such cases are derived exclusively from unrestricted revenues.

Resources for budgeted capital outlay purposes are normally derived from State of New Jersey aid and appropriated fund balance. Expenditures are those that result in the acquisition of or additions to fixed assets for land, existing buildings.

Improvement of ground, construction of buildings, additions to or remodeling of buildings and the purchase of built-in equipment. These resources can be transferred from and to current expense by board resolution.

Special Revenue Fund - The Special Revenue Fund is used to account for the proceeds of specific revenue from State and Federal Government, (other than major Capital Projects, Debt Service or the Enterprise Funds) and local appropriations that are legally restricted to expenditures for specified purposes.

Capital Projects Fund - The Capital Projects Fund is used to account for all financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds). The financial resources are derived from temporary notes or serial bonds that are specifically authorized by the voters as a separate question on the ballot either during the annual election or at a special election. As of June 30, 2012 there was no Capital Projects Fund.

NEWARK LEGACY CHARTER SCHOOL

ESSEX COUNTY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Debt Service Fund -The Debt Service Fund is used to account for the accumulation of resources for, and the payment of principal and interest on, bonds issued to finance major property acquisitions, construction, and improvement programs. As of June 30, 2012 there was no debt service fund.

F Proprietary Funds

The focus of Proprietary Funds' measurement is upon determination of net income, changes in Net Position, financial position and cash flows. The generally accepted accounting principles applicable are those similar to business in the private sector. The following is a description of the Proprietary Funds of the Charter School.

G Enterprise Funds:

The Enterprise Fund is utilized to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the Charter School is that the cost (i.e. expenses including depreciation and indirect costs) of providing goods and services to the students on a continuing basis be financed or recovered primarily through user charges; or where the Charter School has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriated for capital maintenance, public policy, management control, accountability or other purposes.

All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities, whether current or noncurrent, associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is segregated into contributed capital and unreserved retained earnings, if applicable. Proprietary fund type operating statements present increases (revenue) and decreases (expenses) in net total assets.

NEWARK LEGACY CHARTER SCHOOL

ESSEX COUNTY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Internal Service (Self-Insurance) Fund:

The Self-Insurance Fund is used to cover the self-insured limits of the various insurance policies for all funds. The Charter School does not use self insurance fund.

Fiduciary Funds

Fiduciary or trust and Agency Funds are used to account for assets held by the Charter School in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. This fund category includes:

Expendable Trust Funds - Expendable Trust Funds are accounted for in essentially the same manner as the governmental fund types, using the same measurement focus and basis of accounting. Expendable Trust Funds account for assets where both the principal and interest may be spent. At June 30, 2013, the school has no expendable trust fund.

Nonexpendable Trust Funds - Nonexpendable Trust Funds are used to account for assets held under the terms of a formal trust agreement, whereby the Charter School is under obligations to maintain the trust principal. At June 30, 2013, the school has no nonexpendable Trust Fund.

Agency Funds – Agency funds are used to account for the assets that the Charter School holds on behalf of others as their agent. Agency funds are custodial in nature and do not involve measurement of results of operations. Agency funds include payroll and student activities funds.

H Measurement Focus and Basis of Accounting

Measurement Focus –The measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied. On the government-wide statements of Net Position and the statement of activities, both governmental and business-like activities are presented using the economic resources measurement focus.

NEWARK LEGACY CHARTER SCHOOL

ESSEX COUNTY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statement of these funds present increases (i.e., revenues and other financing sources), and decreases (i.e. Expenditures and other finances uses) during a given period. These funds use fund balance as their measure of available spend able financial resources at the end of the period.

All proprietary funds are accounted for on a flow economic resources measurement focus. With this measurement focus, the accounting objectives are the determination of operating income, changes in Net Position (or cost recovery), financial position, and cash flow. All assets and all liabilities, whether current or noncurrent, associated with their activities are included on the balance sheet. Fund equity (i.e., net total assets) is classified as Net Position.

Basis of accounting

In the Charter School - wide statement of Net Position and statements of activities, both governmental and business like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting revenues are recognized when earned and expenses are recognized when the liability, resulting from exchange and exchange like transactions, is incurred (i. e. the exchange takes place).

In the fund financial statements, governmental fund and agency funds are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available. “Measurable” means the amount of the transaction can be determine and “available” means collectible with the current period or soon enough thereafter to be used to pay liabilities of the current period. State equalization monies are recognized as revenue during the period in which they are appropriated. A one-year availability period is used for revenue recognition for all other governmental funds revenues.

NEWARK LEGACY CHARTER SCHOOL

ESSEX COUNTY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

I Budgets/Budgetary Control

Annual appropriated budgets are prepared prior to July 1, for the General Fund. The budget is prepared using the modified accrual basis of accounting. The legal level of budgetary control is established at line item accounts within each fund. Line item accounts are defined as the lowest (most specific) level of detail as established pursuant to the minimum chart of accounts referenced in N.J.A.C. 6:20-2A. 2(m)1. All budget amendments must be approved by the State Department of Education. Formal budgetary integration into the accounting system is employed as a management control device during the year. For governmental funds, there are no substantial differences between the budgetary basis of accounting and generally accepted accounting principles, with the exception of the Special Revenue Fund as noted below.

Encumbrance accounting is also employed as an extension of formal budgetary integration in the governmental funds types. Unencumbered appropriations lapse at fiscal year end.

The accounting records of the special revenue fund are maintained on the grant accounting budgetary basis. The grant accounting budgetary basis differs from GAAP in that the grant accounting budgetary basis recognized encumbrances as expenditures and also recognized the related revenues, whereas the GAAP basis does not. Sufficient supplemental records are maintained to allow for the presentation of GAAP basis financial reports. The following presents a reconciliation of the special revenue funds from budgetary basis of accounting to the GAAP basis of accounting:

Budget/Budgetary Control:

	2013
Total revenues and expenditures (budgetary basis)	\$ 247,063
Adjustments:	
Plus: Encumbrances at June 30, 2012	-
Less: Encumbrances at June 30, 2013	<u>-</u>
Total revenue and expenditures (GAAP basis)	<u>\$ 247,063</u>

NEWARK LEGACY CHARTER SCHOOL

ESSEX COUNTY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

J. Cash, Cash Equivalent and Investments

Cash and cash equivalents include petty cash, change funds, cash in banks and all highly liquid investment with a maturity of three months or less at the time of purchases and are stated at cost plus accrued interest. US Treasury and agency obligations and certificates of deposit with maturities of one year or less when purchases are stated at cost. All other investment is stated at fair value.

New Jersey Charter Schools are limited as to the types of the investments and types of financial institution they may invest in. New Jersey statute 18A:20-37 provides a list of permissible investment that may be purchased by New Jersey Charter Schools. Additionally, the Charter School has adopted a cash management plan that requires it to deposit public funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act ("GUDPA"). GUDPA was enacted in 1970 to protect Governmental Units from loss funds on deposit with a failed banking institution in New Jersey.

N.J.S.A. 17:9-41 et. seq. established the requirements for the security of deposits of governmental units. The statute requires that no governmental unit shall deposit public funds in a public depository unless such funds are secured in accordance with the Act. Public depositories include Savings and Loan Institutions, banks (both state and national banks) and saving banks the deposits of which are federally insured. All public depositories must pledge collateral, having a market value at least equal to five percent of the average daily balance of collected public funds, to secure the deposit of Governmental Units, if a public depository fails, the collateral it has pledged, plus the collateral of all other public depositories, is available to pay the full amount of their deposits to the Governmental Units.

K. Tuition Payable

The Charter School did not send any of its students to any other Charter Schools during the fiscal year ended June 30, 2013.

NEWARK LEGACY CHARTER SCHOOL

ESSEX COUNTY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

L. Inventories and Prepaid Expenses

Inventories and prepaid expenses, which benefit future periods, other than those recorded in the enterprise fund are recorded as expenditure during the year of purchase. Inventories in the Proprietary Funds are valued at cost, which approximates market, using the first- in-first-out (FIFO) Method. Prepaid expenses in the Enterprise Fund represent payments made to vendors for services that will benefit periods beyond June 30, 2013.

M. Interfund Assets/Liabilities

On the fund financial statement, receivable and payables resulting from short-term Inter-fund loans are classified as Inter-fund Receivable/Payable. Inter-fund balances within governmental activities and within business-type activities are eliminated on the government wide Statements of Net Position.

N. Capital Assets:

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the Charter School as a whole. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized. The valuation based for general capital assets are historical cost, or where historical cost is not available, estimated historical cost based on replacement cost.

Capital assets in the proprietary funds are capitalized in the fund in which they are utilized. The valuation bases for proprietary fund capital assets are the same as those used for the governmental fund capital assets.

The charter school's capitalization policy is consistent with New Jersey State Department of Education. Thus, all acquisition costs over the threshold were added to capital assets and depreciated over their economic useful lives. In the fund financial statements, capital assets are accounted for as capital outlay expenditures in the governmental fund upon acquisition

NEWARK LEGACY CHARTER SCHOOL

ESSEX COUNTY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

N. Capital Assets - continued

Donated capital assets are capitalized at estimated fair market value on the date of donation. Depreciation of all capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of the depreciable capital assets are as follows:

<u>Description</u>	<u>Estimated lives</u>
School Building if owned	50years
Building and Buildings Improvements	15 years
Furniture and Equipment	5 to 15 years
Computer and Related Technology	5 years
Vehicles	8 years

O. Compensated Absences

Compensated absences are those absences for which employees will be paid, such as vacation, sick leave, and sabbatical leave. The school policy is to pay as you go, thereby preventing accumulation of accrued sick leave or vacation beyond the current fiscal year. Compensated absences that are related to future services, or that are contingent on specific events that are outside the control of the Charter School and its employees, are accounted for in the period in which such service is rendered or in which such events take place. In governmental and similar trust funds, compensated absences that are expected to be liquidated with the expendable available financial resources are reported as expenditure and fund liability in the fund that will pay for the compensated absences. As of June 30, 2013, there were no accrued compensated absences at the Charter school.

P. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported on the government-wide financial statements. All payable, accrued liabilities, and long term- obligations payable from the enterprises fund are reported and the enterprises fund financial statements.

NEWARK LEGACY CHARTER SCHOOL

ESSEX COUNTY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Q Accrued Liabilities and Long-Term Obligations

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, contractually required pension contributions and compensated absences that are paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are due for payments during the current year.

Fund Balance

In the fund financial statements, governmental fund report reservation of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Reserves represent those portions of fund equity not available for appropriation for expenditure or legally segregated for specific future use. Designated fund balance represents plans for future use of financial resources.

Net Position

The Charter School implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, during the current fiscal year. This statement defines net position as the residual of all other elements presented in a statement of financial position. It is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. This Statement provides guidance for reporting net position within a framework that includes deferred outflows of resources and deferred inflows of resources, in addition to assets and liabilities.

The School also implemented GASB No. 65, *Items previously reported as Assets and Liabilities*, during the current fiscal year. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognize, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

NEWARK LEGACY CHARTER SCHOOL

ESSEX COUNTY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

A deferred outflow of resources is a consumption of net position by the Charter School that is applicable to a future reporting period. A deferred inflow of resources is an acquisition of net position by the Charter School that is applicable to a future reporting period. The Charter School had deferred inflows of resources at June 30, 2013 in the amount of \$100,000. The Charter School deferred outflow of resources at June 30, 2013 was \$9,270, expected to decrease the future net earnings. Net position is displayed in three components net investment in capital assets; restricted and unrestricted.

The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also would be included in this component of net position.

The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. The unrestricted component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Fund Balance Restrictions, Commitments and Assignments:

The restricted fund balance category includes amounts that can be spent only for specific purposes stipulated by law, external resource providers or through enabling legislation. The committed fund balance classification includes amounts that can be used only for specific purposes determined for a formal action of the Charter School highest level of decision making authority. Amounts in the assigned fund balance classification are intended, to be used by the: government for specific purposes and if they do not meet the criteria to be classified as restricted or committed. Unassigned fund balance is the residual classification for the School's General Fund and it includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classifications should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts has been restricted, committed or assigned.

NEWARK LEGACY CHARTER SCHOOL

ESSEX COUNTY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Inter-fund Transactions

Inter-fund transfers are defined as the flow of assets, such as cash or goods, without equivalent flows of assets in return. Inter-fund borrowings are reflected as “Due from/to Other Funds” on the accompanying financial statements. All other inter-fund transfers are reported as operating transfer.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates that affect the recorded amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

On-Behalf Payments

Revenues and expenditures of the General Fund include payment made by the state of New Jersey for Pension and social security contributions for certified teacher members of the New Jersey Teachers Pension and Annuity Fund. The amounts are not required to be included in the Charter School’s annual budget.

NOTE 2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

Deposits and Investments

New Jersey statutes require that Charter Schools deposit public funds in public depositories located in New Jersey that are insured by the Federal Deposit Insurance Corporation, the Federal Savings and Loan Insurance Corporation, or by any other agency of the United States that insures deposits made in public depositories. Charter schools are also permitted to deposit public funds in the State of New Jersey Cash Management Fund (NJCMF), the New Jersey Arbitrage Rebate Management Fund (NJARM) and the M.B.I.A Class.

New Jersey statutes require public depositories to maintain collateral for deposits of public funds that exceed depository insurance limits as follows: The market value of the collateral must equal at least 5% of the average daily balance of collected funds on deposit.

NEWARK LEGACY CHARTER SCHOOL

ESSEX COUNTY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Deposits and Investments

In addition to the above collateral requirement, if the public funds deposited exceed 75% of the capital funds of the depository, the depository must provide collateral having a market value at least equal to 100% of the amount exceeding 75%. All collateral must be deposited with the Federal Reserve Bank of New York, the Federal Reserve Bank of Philadelphia, the Federal Home Loan Bank of New York, or a banking institution that is a member of the Federal Reserve System and has capital funds of not less than \$25,000,000.

The Charter School's cash and cash equivalents are classified below to inform financial statement users about the extent to which the Charter School's deposits and investments are exposed to custodial credit risk. Cash and cash equivalents include petty cash, change funds and amounts on deposit with local banks, money market accounts and short term investment with maturities of three months or less. New Jersey statutes require that Charter School deposit public funds in public depositories located in New Jersey which is insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per account. As of June 30, 2013, cash and cash equivalents consisted of the following:

General Fund	After Care Service	Food Program	Fiduciary Funds	2013 Total
\$ 567,193	\$ 22,170	\$ 6,119	\$ 93,657	\$ 689,139
-	-	-	-	-
<u>\$ 567,193</u>	<u>\$ 22,170</u>	<u>\$ 6,119</u>	<u>\$ 93,657</u>	<u>\$ 689,139</u>

Custodial credit risk

GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, requires that the School disclose bank deposits that are subject to custodial credit risk. The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the School will not be able to recover deposits or will not be able to recover collateral securities that may be in the possession of an outside party. As of June 30, 2013 the School's bank balances amounted to \$689,139 and were not exposed to custodial credit risk since all deposits were insured by FDIC and GUPDA.

NEWARK LEGACY CHARTER SCHOOL

ESSEX COUNTY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Custodial credit risk

In accordance with GASB statement No.40, the school is required to disclose the level of custodial credit risk assumed in its cash and cash equivalents and investments in different categories.

Category 1- Insured or collateralized with securities held by the Charter School or by its agent in the Charter School's name. The balance of \$689,139 is a category 1 as disclosed in the financial statements.

Category 2 - collateralized with securities held by the pledging public depository's trust department or agent in the Charter School's name.

Category 3- Uncollateralized, including any deposits that are collateralized with securities held by pledging public depository, or by its trust department or agent but not in the Charter School's name.

NOTE3. CAPITAL ASSETS

In the fund financial statements, fixed assets are accounted for as capital outlay expenditures in the governmental fund upon acquisition. The following schedule is a summarization of the governmental activities changes in capital assets for the year ended June 30, 2013:

NEWARK LEGACY CHARTER SCHOOL

ESSEX COUNTY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Governmental activities	Beginning Balance	Net Additions (Deletions)	Ending Balance
Capital assets, being depreciated:			
Equipment/ Computer	\$ -	\$ 15,895	\$ 15,895
	-		-
Total capital assets being depreciated	-	15,895	15,895
Less accumulated depreciation for:			
Equipment/ Computer	-		-
			-
Total accumulated depreciation	-	-	-
Total capital assets net	\$ -	\$ 15,895	\$ 15,895

NOTE 4. OPERATING LEASES

The Charter School is committed to lease agreements under non-cancelable annual operating leases with Newark Public School, for its' school buildings located at 460 Lyons Ave, Newark, NJ and 823 S. 16th Street, Newark, NJ. The lease for the Lyon's Ave location has an option to renew for additional terms through June 30, 2013. In July 2013, the Charter School entered into an agreement to amend the lease extending the term to June 30, 2014. There are currently no further options to extend beyond this date. The lease for the S. 16th Street location expired on July 31, 2013. As of August 2013, an agreement was entered into to amend the lease and extend it to July 31, 2014. There are currently no further options to extend beyond this date.

Landlord and Tenant have heretofore informally agreed to reduce the rental rate, for the Lyon's Ave location, effective August 1, 2011, to an amount equal to the rental rate that Landlord had then agreed to, on a sole-occupancy basis comparable to other schools that it owns. Tenant, pending a definitive writing setting forth such informal agreement, continued, for a period, to pay rent at the rate set forth in the Lease, and, with Landlord's approval, thereafter received a credit for overpaying rent in the amount of approximately \$66,000.00. Under the lease terms, rent was \$44,400 and \$16,863 respectively for 460 Lyons and S.16th Street for 2012-2013. As a result of the credit for such overpayment, Newark Legacy remitted \$6,677.00 for 2012-2013.

The future minimum lease payments are as follows:

FY 2014 \$89,724

NEWARK LEGACY CHARTER SCHOOL

ESSEX COUNTY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 5 FEDERAL AND STATE AIDS

Federal and State aids are generally subject to review by the responsible governmental agencies for compliance with the agencies' regulations governing the aids. In the opinion of the Charter School's management, any potential adjustments to the Federal or State aid recorded by the Charter School through June 30, 2013, resulting from a review by a responsible government agency will not have a material effect on the Charter School financial statements at June 30, 2013.

NOTE 6 COMPENSATED ABSENCES

Employees of the Organization are entitled to be paid unused vacation and authorized sick days. The Charter School policy is to forfeit any unused sick days at the end of fiscal year to prevent accumulation of sick days into the future. The unused vacation days are usually accrued if there are any. At June 30, 2013, there were no unused vacations days to be accrued.

NOTE 7 PENSIONS PLANS

A) Description of Plans

Substantially all eligible employees of the Charter School are covered by either the Public Employee's Retirement System or the Teacher's Pension and Annuity Fund which have been established by state statute and are administered by the New Jersey Division of Pension and Benefit (Division).

According to the State of New Jersey Administrative Code, all obligations of both Systems will be assumed by the State of New Jersey should the Systems terminate. The Division issues a publicly available financial report that includes the financial statements and required supplementary information for the Public Employees Retirements System and the Teacher's Pension and Annuity Fund. These reports may be obtained by writing to the Division of Pensions and Benefits, PO Box 295, Trenton, New Jersey, 08625.

NEWARK LEGACY CHARTER SCHOOL

ESSEX COUNTY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Teachers Pension and Annuity Fund (TPAF)

The Teachers' Pension and Annuity Fund was established as a January 1, 1995, under the provisions of N.J.S.A. 18A:66 to provide coverage including post-retirements health care to substantially all full time certified teachers or professional staff of the public school systems in the State. The Teacher's Pension and Annuity Fund is considered a cost-sharing multiple-employer plan with a special funding situation, as under current statute, all employer contributions are made by the State of New Jersey on behalf of the Charter School and the systems other related non-contributing employers.

Membership is mandatory for substantially all teachers or members of the professional staff certified by the State Board of Examiners, and employees of the Department of Education who have titles that are unclassified, professional and certified.

Public Employees' Retirement System (PERS)

The public Employees' Retirement Systems (PERS) was established as of January 1, 1955 under the provisions of N.J.S.A. 43:15A to provide coverage including post-retirement health care to substantially all full time employees of the State or any county municipality, Charter School, or public agency provided the employee is not a member of another state-administered retirement system. The public Employees' Retirement System is a cost-sharing multiple-employer plan. Membership is mandatory for substantially all full time employees and vesting occurs after 8 to 10 years of service for pension benefits and 25 years for post retirement health care coverage.

Significant Legislation

P.L. 2010 effective May 21, 2010 made a number of changes to the state administered retirement systems concerning eligibility, the retirement allowance formula, the definition of composition, the positions eligible for service credit, the non-forfeitable right to a pension, the prosecutor part of the PERS, and employer contributions to the retirement system.

The legislation changed the membership eligibility criteria for new members of TPAF and PERS from the amount of annual compensation to the number of hours worked weekly. Also it returned the benefit multiplier for new members of TPAF and PERS to 1/60 from 1/55, and it provided that new members of TPAF have the retirement allowance calculated using the average annual compensation for the last five years of service instead of the last three years of service. New members of TPAF and PERS will no longer receive from more than one employer.

NEWARK LEGACY CHARTER SCHOOL

ESSEX COUNTY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Significant Legislation

Pension service credit will be earned for the highest paid position only. This law also closed the prosecutors part of the PERS to new members and repealed the law for the new members that provided a non-forfeitable right to receive a pension based on the laws of the retirement system in place at the time of five years of pension service credit is attained. The law also requires the state to make its full pension contribution, defined as 1/7th of the required amount, beginning in the fiscal year 2012. TP. L. 2010, c.3 effective May 21, 2010, replaced the accidental and ordinary disability retirement for new members of the TPAF and PERS with disability insurance coverage similar to that provided by the state to individuals enrolled in the state “defined contribution” retirement program.

Contribution requirement

The contribution policy is set by laws of the State of New Jersey and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. Effective July, 2012, the employee’s contributions for TPAF and PERS has increased from 6.5% to 6.64% of employee’s annual compensation as defined. Subsequent increases are being phased in over 7 years effective July 1st to bring the total pension contribution rate to 7.5% of base salary as of July 1, 2018. Employers are required to contribute at an actuarially determined rate in both TPAF and PERS. Under the current statute, the Charter School is a noncontributing employer of the TPAF as the state has assumed the obligation. The Charter school’s contributions for the PERS as of June 30, 2013 were \$0.

NOTE 8 POST EMPLOYMENT BENEFITS

TPAF and the Public Employees’ Retirement System (PERS), respectively, to fund post-retirement medical benefits for those State employees who retire after accumulating 25 years of credited service or on a disability retirement.

Public law (P.L.) 2007, c 103 amended the law to eliminate the funding of postretirement medical benefits through the TPAF and PERS. It created separate funds outside of the pension plans for the funding and payment of post-retirement medical benefits for retired state employees and retired educational employees.

NEWARK LEGACY CHARTER SCHOOL

ESSEX COUNTY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 8 POST EMPLOYMENT BENEFITS

As of June 30, 2011, there were 97,661 retirees eligible for post-retirement medical benefits. The cost of these benefits is funded through contributions by the State in accordance with Chapter 62, P.L. 1994. Funding of post-retirement medical premiums changed from a prefunding basis to a pay-as-you-go basis beginning in fiscal year 1994. The State is also responsible for the cost attributable to Chapter 126, P.L. 1992, which provides free health benefits to members of PERS, and the Alternate Benefit Program who retired from a board of education or county college with 25 years of service. In fiscal year 2012, the State paid \$146.6 million toward Chapter 126 benefits for 16,618 eligible retired members in fiscal year 2012.

NOTE 9 DEFERRED COMPENSATION

The Charter School has no other deferred compensation other than the New Jersey State TPAF and PERS as mentioned above. Accordingly, no amount has been recorded in the accompanying financial statements.

NOTE 10 SOCIAL SECURITY TAX REIMBURSEMENTS

In accordance with N.J. S.A. 18A: 66-66 of the State of New Jersey reimbursed the school \$105,231 during the year ended June 30, 2013 for the employer's share of social security contributions for TPAF members as calculated on their base salaries. This amount has been included in the accompanying CAFR as revenue and expenditure.

NEWARK LEGACY CHARTER SCHOOL

ESSEX COUNTY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

New Jersey Unemployment Compensation

The Charter School has elected to fund its New Jersey Unemployment Compensation Insurance under the "Benefit Reimbursement Method". Under this plan, the Charter School is required to reimburse the New Jersey Unemployment Trust Fund For benefits paid to its former employees and charged to its account with the State. The Charter School is billed quarterly for the amounts due New Jersey division of labor. The following is a summary of the school contribution to the state for benefits paid and the ending balance of the Charter school's trust contributions, employee contributions, reimbursements to the state for benefits paid and the ending balance of the Charter School's trust fund for the current and the previous years.

<u>Fiscal year</u>	<u>Employee Contributions</u>	<u>Ending Balance</u>
2012-2013	\$ 4,582	\$ 7,786

NOTE 12 BUSINESS RISK

The Charter School receives its support from federal, state and local governments. A significant reduction in the level of support, if it were to occur may have an adverse effect on the Charter School's programs and activities.

NOTE 11 RISK MANAGEMENT

The Charter School is exposed to various risks of loss relates to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters

Property and Liability Insurance

The Charter School maintains commercial insurance coverage for property, liability and surety bonds. A complete schedule of insurance coverage can be found in the Statistical Section of this Comprehensive Annual Financial Report.

NEWARK LEGACY CHARTER SCHOOL

ESSEX COUNTY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 13 INTERFUND RECEIVABLE AND PAYABLE

The composition of inter-fund balances as of June 30, 2013 is as follows:

Fund	Interfund Receivable	Interfund Payable
General Fund	\$ 152,314	\$ -
Enterprise Fund	-	95,923
Fiduciary Funds	180	56,571
	<u>\$ 152,494</u>	<u>\$ 152,494</u>

The above balances are the results of revenues earned or other financing sources received in one fund which are due to another fund and/or expenditures paid by one fund on behalf of another fund and/or to cover cash balances which were in negative position. Liquidation of this interfund balances is expected within the next fiscal year.

NOTE 14 COMMITMENTS

The grant program is subject to financial and compliance audits by the grantors or their representatives. The final determination on the allowability of costs resulting from expenditures funded by New Jersey Department of Education (NJDOE) remains with NJDOE. Management is not aware of any material items of non compliance which would result in disallowance of the program expenditures.

NOTE 15 RECENTLY REGULATED REGULATIONS

Pursuant to Chapter 78 P.L 2011 increases in employees contributions for health insurance were effective on October 1, 2011. Employees are required to contribute a certain percentage of the cost of coverage. The rate of contribution is determined based on the employee's annual salary and the selected level of coverage. The increased employee contributions will be phased in over a 4-year period for those employed prior to this new legislation's effective date with a minimum contribution required to be at least 1.5% of salary.

NEWARK LEGACY CHARTER SCHOOL

ESSEX COUNTY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 16 SUBSEQUENT EVENTS

The Charter School has evaluated all subsequent events occurring through the date of the independent auditors report dated October 21, 2013. No events were determined to require disclosure.

REQUIRED SUPPLEMENTARY INFORMATION
PART II
BUDGETARY COMPARISON

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

OTHER SUPPLEMENTARY INFORMATION

**SPECIAL REVENUE FUND
DETAIL STATEMENTS**

<p>CAPITAL PROJECTS FUND DETAIL STATEMENTS</p>

The capital projects fund is used to account for the acquisition and construction of major capital facilities and equipment purchases other than those financed by propriety funds.

At June 30, 2013, there was no capital project fund.

<p>ENTERPRISE FUNDS DETAIL STATEMENTS</p>
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Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the Charter School is that the costs of providing goods and services be financed through user charges. The Fund consisted of Food Service Program and After Care Services for the year ended June 30, 2013.

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<p>FIDUCIARY FUNDS DETAIL STATEMENTS</p>

Trust funds are used to account for gifts and bequests to the Charter School for specific purposes.

Unemployment Compensation Insurance Trust Fund is an expendable trust fund used to account for unemployment transactions of the Charter School.

At June 30, 2013 there was no non-expendable trust fund utilized by the Charter School.

Agency funds are used to account for assets held by the Charter School as an agent for individuals, private organizations, governmental and/or other funds.

Payroll Fund - This agency fund is used to account for the payroll transactions of the Charter School.

LONG-TERM DEBT

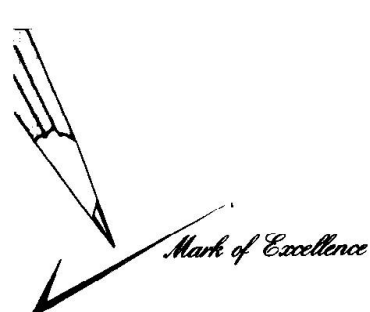
The long-term debt is used to record the outstanding principal balances of the long term liabilities of the charter school. This includes the outstanding principal balance on capital lease, the accrued liability for insurance claims and the liability for compensated absences and the outstanding principal balance on certificates of participation outstanding. As of June 30, 2013 there were no activities to be reported in this section.

STATISTICAL SECTION

GASB requires 10 years of statistical data be presented.

Each year thereafter, an additional year's data will be included up to 10 years

SINGLE AUDIT SECTION



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& MANAGEMENT CONSULTANT
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EXHIBIT K-1

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Honorable President and
Members of the Board of Trustees
Newark Legacy Charter School, Inc.
Essex County, New Jersey

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Newark Legacy Charter School, Inc.(NLCS) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Charter School's basic financial statements, and have issued our report thereon dated October 21, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Newark Legacy Charter School, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Newark Legacy Charter School, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

Internal Control Over Financial Reporting - Continued

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether NLCS's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and audit requirements as prescribed by Division of Finance and regulatory compliance, Department of Education, State of New Jersey.

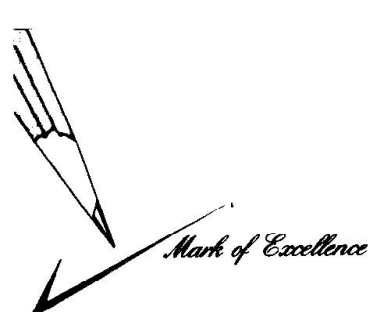
Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Charter School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ilori CPA LLC

Kunle B. Ilori, CPA
Licensed Public School Accountant
No. 20CS00233100

October 21, 2013
Newark, New Jersey



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EXHIBIT K-2

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133 AND NEW JERSEY OMB CIRCULAR 04-04

The Honorable President and
Members of the Board of Trustees
Newark Legacy Charter School, Inc.
Essex County, New Jersey

Report on Compliance for Each Major Federal and State Programs

We have audited Newark Legacy Charter School, Inc., in the county of Essex, State of New Jersey (the "Charter School"),'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* and *New Jersey OMB Circular 04-04* that could have a direct and material effect on each of Charter school's major federal programs for the year ended June 30, 2013. The Charter School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Charter School's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and New Jersey OMB Circular 04-04, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Charter School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED
BY OMB CIRCULAR A-133 AND NEW JERSEY OMB CIRCULAR 04-04**

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Charter School's compliance.

Opinion on Each Major Federal and State Programs

In our opinion, Charter School, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal and state programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of Charter School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Charter School's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, and New Jersey OMB Circular 04-04, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Charter School's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED
BY OMB CIRCULAR A-133 AND NEW JERSEY OMB CIRCULAR 04-04**

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133 and New Jersey OMB Circular 04-04. Accordingly, this report is not suitable for any other purpose.

Ilori CPA LLC

Kunle B. Ilori, CPA
Licensed Public School Accountant
No. 20CS00233100

October 21, 2013
Newark, New Jersey

**NOTES TO THE SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS AND
STATE FINANCIAL ASSISTANCE**

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**NOTES TO THE SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS AND
STATE FINANCIAL ASSISTANCE**

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1. GENERAL

The accompanying Schedules of Expenditures of Federal Awards and State Financial Assistance present the activity of all federal and state award programs of the Board of Trustees, Newark Legacy Charter School. The Board of Trustees is defined in Note 1 to the Board's basic financial statements. All federal and state awards received directly from federal and state agencies, as well as federal awards and state financial assistance passed through other government agencies are included on the schedule of expenditures of federal awards and state financial assistance.

NOTE 2. BASIS OF ACCOUNTING

The accompanying Schedules of Expenditures of Federal Awards and State Financial Assistance are presented using the modified accrual basis of accounting with the exception of those recorded in the special revenue, which are presented using the budgetary basis of accounting. These bases of accounting are described in Note 1 to the Board's basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation, of the basic financial statements.

NOTE 3. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

The basic financial statements present the general fund and special revenue fund on GAAP basis. Budgetary comparison statements or schedules (RSI) are presented for general fund and special revenue fund to demonstrate finance related legal compliance in which certain revenue is permitted by law or grant agreement to be recognized in the audit year, whereas for GAAP reporting, revenue is not recognized until subsequent year or expenditures have been made.

The general fund is presented in the accompanying schedule on the modified basis. The special revenue fund is presented in the accompanying schedules on the grant accounting budgetary basis which recognizes encumbrances as expenditures and also recognizes the related revenues, whereas the GAAP basis does not. The net adjustment to reconcile from budgetary basis to GAAP basis is \$0 for general fund and \$ 0 for special revenue fund. See Note 1 for a reconciliation of the budgetary basis to the GAAP basis of accounting for the special revenue fund. Awards and financial assistance revenues are reported in the Board's basic financial statements on a GAAP basis as follows:

**NOTES TO THE SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS AND
STATE FINANCIAL ASSISTANCE**

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 3. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS- CONTINUED

	Federal	State	Total
General Fund	\$ -	\$ 2,987,810	\$ 2,987,810
Special Revenue Fund	241,999	-	241,999
	-	-	-
Total	<u>\$ 241,999</u>	<u>\$ 2,987,810</u>	<u>\$ 3,229,809</u>

NOTE 4. RELATIONSHIP TO FEDERAL AND STATE FINANCIAL REPORTS

Amounts reported in the accompanying schedules agree with the amounts reported in the related federal and state financial reports.

NOTE 5. OTHER

Revenue and expenditures reported under the Food distribution program represent current year value received and current year distributions respectively. The amount reported as TPAF represents the amount reimbursed by the state for the employer's share of social security contributions for TPAF members for the year ended June 30, 2013.

NOTE 6. SCHOOL WIDE PROGRAM FUNDS

School-wide programs are not separate federal programs as defined in OMB Circular A-133; amounts used in school wide programs are included in the total expenditures of the program contributing the funds in the schedule of expenditures of the program contributing the funds in the schedule of expenditures of federal and state awards.

SCHEDULES OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:

Unmodified

Internal control over financial reporting:

* Material weakness (es) indentified?

_____ yes

 X no

* Significant deficiencies identified that are not
considered to be material weaknesses

_____ yes

 X none reported

* Noncompliance material to basic financial
statements noted?

_____ yes

 X no

Federal Awards

Internal control over major programs:

* Material weakness(es) identified?

_____ yes

 X no

* Significant deficiencies identified that are not
considered to be material weaknesses

_____ yes

 X no

Type of auditor's report issued on compliance
for major programs:

Unmodified

CFDA Numbers

N/A

Name of Federal Program

N/A

SCHEDULES OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

SECTION I - SUMMARY OF AUDITOR'S RESULTS

State Awards

Dollar threshold used to distinguish between type A and type B programs \$ 300,000

Auditee qualifies as low risk auditee X yes no

Internal control over major programs:

* Material weakness(es) identified? yes X no

* Significant deficiencies identified that are not
considered to be material weaknesses yes X no

Type of auditor's report issued on compliance
for state major programs: Unmodified

<u>GMIS Number (s)</u>	<u>Name of State Program</u>
13-495-034-5120-078	Equalization Aid

SECTION II - FINANCIAL STATEMENT FINDINGS

Current Year

None

**SUMMARY SCHEDULE OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Status of prior year findings

There were no prior year findings